

## **Reviewing the SGR update for 2003**

**ISSUE:** By March 1 of each year, CMS issues a preliminary estimate of the next payment update for physician services based on the sustainable growth rate (SGR) system. The estimate for 2003 is -5.7 percent, which is the maximum reduction permitted under current law. Is this estimate accurate? If so, why does the SGR system call for another large payment reduction? Payment rates were reduced by 5.4 percent in 2002.

**KEY POINTS:** Judging the accuracy of CMS's estimate is difficult. It is dependent on numerous factors, including input prices for physician services, real gross domestic product (GDP) per capita, enrollment in traditional Medicare, spending due to law and regulation, and actual spending for physician services. Experience has shown that estimates of these factors can change, sometimes with major impacts on payment updates. In the case of the update for 2003, however, it is likely that CMS's estimate of a maximum reduction is accurate because estimates from both CMS and MedPAC show that this would be only one in a series of reductions over the period 2002-2005. The system requires these reductions to account for low GDP growth and correction of CMS's past errors in calculating actual spending for physician services.

The more important point is that updates under the SGR system are not sustainable. According to MedPAC estimates, the series of cuts in 2002-2005 would total about 17 percent. The Commission did not recommend a reversal of the reduction in 2002, but further cuts of this magnitude substantially raise concerns about beneficiary access to care. This problem further reinforces MedPAC's recommendation that the Congress should repeal the SGR system. In its place, the Commission recommends an update method based on the estimated change in input prices for the coming year, less an adjustment for growth in multifactor productivity.

**ACTION:** The Commission is required to include a review of CMS's estimate in the June report. To fulfill this requirement, the report will include a brief statement that the estimate appears to be accurate. The report will also reiterate the Commission's recommendation that the Congress should replace the SGR system.

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